Ultra Mega Power Problem

Rising cost of imported coal and set rates have skewed the calculations of power producers

Prakash Chawla

'So what if you did not agree in the past? Try and do it again! Agree among yourselves and come back to us with a solution.'

That was the broad message the Central Electricity Regulatory Commission handed out to Tata Power and other parties to the tariff dispute in regard to the electricity generated from the ultra-mega power projects (UMPPs) or other large capacity imported coal-based plants in Gujarat.

But according to those who have been tracking the entire UMPP saga and the kind of mess that the projects have got themselves into, it is kind of back to square one situation with none emerging a winner. Then, who among the parties to the dispute have lost? Well, jury is out still, but the country wanting to go big on its energy and the consumers – both the household and the industry – have clearly lost out.

> The power regulator must take the initiative again and come out with concrete solutions even if electricity is a State subject, keeping in mind the long-term interest of the consumer.

LONG-TERM INTEREST

While Gujarat is self-sufficient in its energy requirements, the long-term consumer interest will be protected if a way out is found to bring back on the rail the troubled Tata UMPP, along with that of the Adanis which is facing a similar predicament. Similar is the case with the projects being implemented by Anil Ambani-led Reliance ADAG. The UMPPs were touted as Central projects that would enable the country tide over its energy shortages. But things have not quite worked out that way. Of the 18 UMPPs that were to be launched, only four got awarded – three to the Anil Ambani-led Reliance ADAG in Madhya Pradesh, Jharkhand and Andhra Pradesh, and one to Tata Power. Of these, only that of Tata Power, with a generating capacity of 4,000 MW, has got fully commissioned at Mundra on the Gujarat coast. It is fired by coal imported from Indonesia. Sasan of Reliance got just about partly started.

But the project that was to be the showpiece of the mega infrastructure sector is bleeding with half of the equity, largely owned by Tata Power, getting wiped out. The lenders to the about Rs 20,000-crore project do have the reason to worry, lest it goes the Kingfisher way.

The dispute largely revolved around the tariff rate at which the electricity to be generated by the UMPPs, more so from the imported coal-based coastal projects like those of the Adanis, Tata Power and stalled Krishnapatnam in Andhra Pradesh, were to be sold to the distribution companies and ultimately supplied to industry and households at a pre-determined rate. That pre-determined rate was fixed in the power purchase agreement (PPA) on the basis of certain assumptions on the likely fuel price, especially that of coal from Indonesia.

But things went terribly wrong and the coal prices went through the roof in the last few years skewing all calculations by the UMPP, with the result that the promoters wanted a revision in electricity prices.

The reaction was on the expected lines, with the distribution companies (discoms) asking the promoters to fulfil the obligations as set out in the PPAs, no matter how badly they were bleeding.

Their argument was that the consumer or the discoms could not be made to pay for the unexpected and unprecedented rise in coal prices. The worst hit was Tata Power that has commissioned the entire 4,000 MW, while the other promoter, which has completed the projects, is going slow till the tariff issue gets resolved.

But who is to get the issue resolved? The regulator, of course. The CERC, in this case.

After prolonged deliberations, the regulator has come up with an order that the Tatas and the Adanis, which have about 4,000 MW project each on the Gujarat coast, deserve some relief. The how will be decided among the parties.

The moot question is: Will the parties reach a consensus? While the Tatas, reportedly incurring losses of Rs 1,600 crore annually, face funds pressure, the discoms have political reasons to oppose the tariff hike demand.

The regulator should take the initiative again and order a concrete solution even if electricity is a State subject and the CERC may have limitations.

The long-term interest of the consumer has to be kept in mind. As far as Tata Power and the other promoters are concerned, the balanced view should be, "all right there is a case for helping them because beyond a point they will even stop bleeding and sink, but let the relief not become an opportunity". With coal prices dipping in the international market, maybe the entire project can reviewed afresh and the quantum of hair- cut be distributed so as to reduce the pain of the hair split.

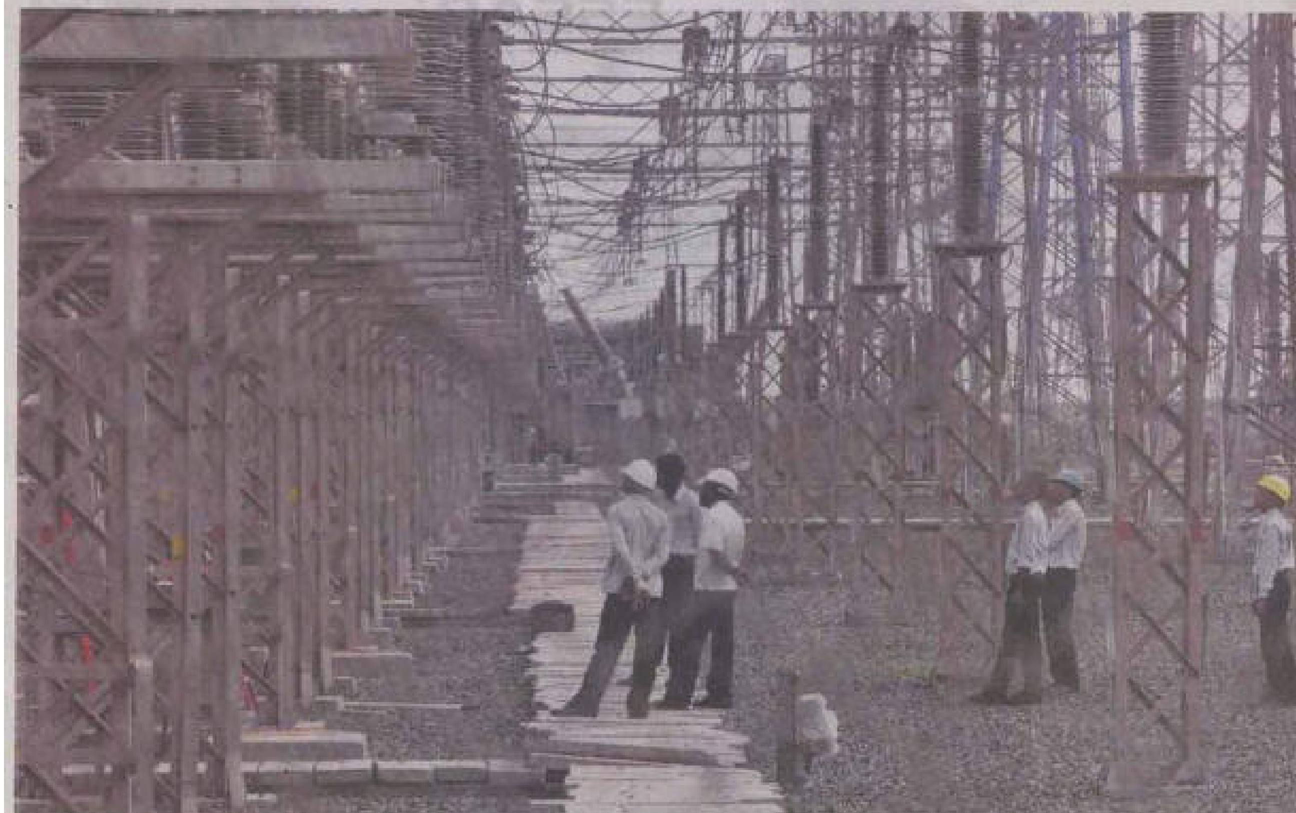
LESSONS FOR FUTURE PROJECT

In the end, it is the governments, the regulators and the tribunals/courts that have to decide the commercial disputes which should not thwart the country's progress, especially on a crucial issue like power.

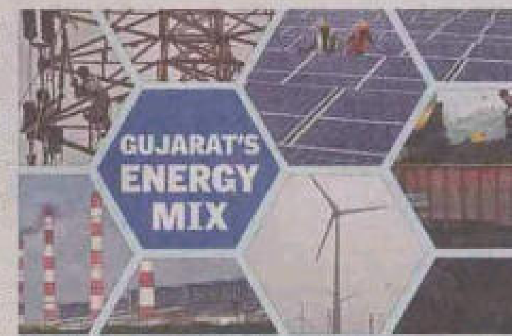
It is also a lesson for project promoters that they should keep enough elbow room in the agreements that they sign with the public utilities.

Asking the consumer to pay more, however logical that might be, will be a difficult decision, especially politically.

(The author is a senior journalist)

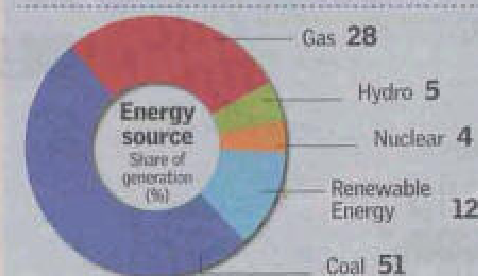


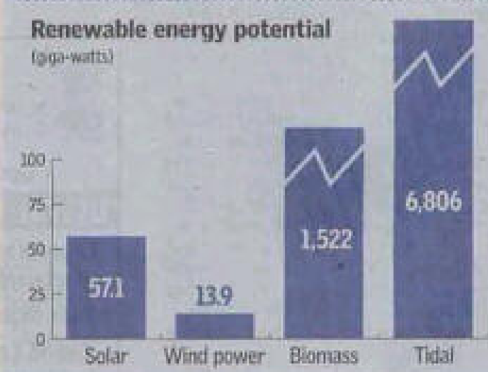
Adani Power's thermal plant at Mundra. — Reuters



Installed power capacity 13,144 MW

Per capita power consumption 1,491 units





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